



Statement for the Record
at a Hearing Before the
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives

May 5, 2011

Transparency and Funding of State and Local Pension Plans

Submitted on Behalf of the

**National Association of Counties
National League of Cities
United States Conference of Mayors
International City/County Management Association
National Association of State Auditors Comptrollers and Treasurers
International Public Management Association for Human Resources
National Council on Teacher Retirement
National Association of State Retirement Administrators**

On behalf of the national organizations listed above, representing state and local governments, officials and public retirement systems, we submit the following comments for the public record.

In response to the recent unparalleled financial market decline that impacted all investors, state and local governments have been reviewing the long-term sustainability of their retirement systems. These governments, their plans and their employees (who share in the financing of their pension), working through state and local legislative and regulatory structures, have made an unprecedented number of changes to benefit levels, financing structures, or both, and more continue to do so. Given the differing plan designs, financial conditions and fiscal frameworks across the nation, a diverse range of solutions will be required for each, and one-size-fits all federal mandates will only serve to hinder rather than help state and local recovery efforts.

State and local governments have rigorous accountability requirements set in statute and through regulation, and follow stringent accounting standards in accordance with Generally Accepted Accounting Principles (GAAP). Similar to how financial reporting requirements for federal agencies are set by the Federal Accounting Standards Advisory Board (FASAB), reporting for state and local governments and their pension plans are adopted by the Governmental Accounting Standards Board (GASB). Both FASAB and GASB were established recognizing fundamental differences between governments and businesses, which require unique accounting and financial reporting standards essential for public accountability and for an efficient and effective functioning of government.

State and local government retirement systems follow GAAP standards established by GASB and are currently required to report all of their financial data in Comprehensive Annual Financial Reports (CAFRs), which are audited, publicly available and can be easily accessed by anyone. The CAFR contains considerable information about the pension fund's liabilities, asset values, assumptions, rates of return, annual required contributions, as well as other pertinent information. State and local retirement systems are also subject to open records statutes, Freedom of Information Acts, open meeting and sunshine laws, and other public accountability requirements.

Federal proposals such as H.R. 567 would levy a whole new and conflicting Federal reporting regime on top of these existing state and local structures. In addition, they would paint a misleading picture of public finance and impose costly measures far more conservative than Federal law requires even of corporations. Further, the legislation threatens the current tax exempt status of state and local government bonds if any of the numerous and complex calculations imposed are deemed insufficient by Federal agencies.

Thus, our organizations wrote to all members of Congress earlier this year to register our strong opposition to H.R. 567, noting this legislation creates a dangerous precedent with regard to federal taxation and regulation of state and local governments. In addition, the proposal represents a fundamental lack of understanding regarding the operations and funding of public pensions and the strong accounting rules and strict legal constraints already in place requiring open and transparent governmental financial reporting and processes.

GASB is an independent standard-setting body that regularly reviews the reporting requirements of states and localities. H.R. 567 inappropriately preempts a formal, multi-year project in which GASB has been examining its current accounting and reporting standards for state and local government pensions, and in which proposed new disclosure requirements are expected shortly.

Further, this legislation ignores the extensive efforts made at the state and local levels to close short-term budget deficits as well as address longer-term obligations such as pensions. Inaccurate and misleading descriptions of the state of public finance and pensions are unhelpful and Federal intrusion into areas that are the fiscal responsibility of state and local governments are unwarranted. At a time when Congress and the Administration are both discussing the need to remove regulatory barriers, it makes little sense to impose disruptive and costly federal mandates that interfere with state and local government recovery efforts already underway, do not allow states and localities to adopt tailored solutions to meet their unique long-term needs, and set a dangerous precedent with regard to Federal taxation of state and local government bonds.

We welcome the opportunity to work with the Committee as you further examine these important issues. We have attached a fact sheet on public pensions for your review, as well as a summary of what H.R. 567 does and does not accomplish. If you have any questions or would like additional information, please do not hesitate to contact our organizations' legislative representatives:

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Attachments (2)

The Public Employee Pension Transparency Act ("PEPTA" HR 567/S 347)

State and local governments have rigorous accountability requirements set in statute and through regulation, and follow stringent accounting standards in accordance with Generally Accepted Accounting Principles. HR 567 and S 347 would nevertheless levy a whole new and conflicting Federal reporting regime on top of these existing state and local structures, paint a misleading picture of public finance, and impose costly measures far more conservative than Federal law requires even of corporations. Further, the legislation threatens the current tax exempt status of state and local government bonds if any of the numerous and complex calculations imposed are deemed insufficient by Federal agencies.

What the bill does:

- ***Creates a worrisome precedent regarding federal regulation of state and local governments and taxation of their bonds***
 - Mandates a costly and complex layer of Federal reporting on top of existing state and local accounting and reporting.
 - Gives Federal regulators sweeping powers to impose duplicative requirements on State and local governments already struggling to comply with existing Federal paperwork burdens.
 - Jeopardizes state and local financing of infrastructure and other critical needs by stripping the tax exempt status on bonds issued by state and local governments if new regulations are not met to the regulators' satisfaction.
 - Creates confusion as to which entities are required to report information to the Federal government and penalizes state and local governments that issue municipal bonds for simple, unintended reporting errors.
 - Threatens far-reaching and unintended consequences for the municipal bond market and the economy as a whole.
- ***Falsely depicts the true condition of state and local governments and their retirement systems***
 - Requires state and local governments to report as though they are invested only in U.S. Treasuries, not the diversified portfolios actually in use. This would create a false picture of the true condition of public pension plans and mislead taxpayers, alarm retirees, frighten investors and confuse policymakers.
 - In 2006, Congress rejected similar public reporting requirements for corporate pension plans because the private sector argued, just as the public sector is now, that such reporting significantly increased costs and volatility, and was irrelevant. The U.S. Chamber of Commerce testified that "these calculations are among the most burdensome and costly procedures a plan can ever endure," "would not provide relevant information in the majority of cases," and "this information would unduly alarm plan participants."
 - Creates the false impression that one state's pension system can be directly compared with that of another state by ignoring important differences in the sovereign entities and political subdivisions that sponsor these programs, as well as the unique demographic make-up, cost-of-living, inflation factors, mortality rates, and fiscal condition of each.

What the bill does NOT do:

- ***Does NOT lower taxpayer costs***
 - The Federal government does not guarantee state and local government employees' pensions, and no public pension plan is asking for Federal financial assistance. This is a red herring.
 - At a time when both Congress and the Administration want to remove regulatory barriers, this bill would impose complicated, costly Federal mandates that will only interfere with state and local recovery efforts.
- ***Does NOT increase transparency and understanding regarding state and local government retirement systems***
 - PEPTA is not about transparency. Public pension reporting is already transparent.
 - State and local government retirement systems are currently required to report all of their financial data in Comprehensive Annual Financial Reports (CAFR), which are audited, publicly available and can be easily accessed by anyone. The CAFR contains considerable information about the pension fund's liabilities, asset values, assumptions, rates of return, annual required contributions, as well as other pertinent information.
- ***Does NOT improve public pension accountability***
 - State and local government retirement systems are already required to adhere to strict accounting standards set by the Governmental Accounting Standards Board (GASB). This independent standard-setting body regularly reviews the reporting requirements of states and localities.
 - PEPTA inappropriately preempts a formal, multi-year project in which GASB has been examining its current accounting and reporting standards for state and local government pensions and is expected to issue proposed new disclosure requirements in mid-2011.
 - In 2010, an unprecedented number of states made changes to their pension benefits, contribution requirements, or both, and many more states are expected to follow suit in 2011 – all done without the need for Federal intervention.
 - One-size-fits-all Federal mandates that interfere with state and local government recovery efforts already underway, do not allow states and localities to adopt tailored solutions to meet their unique long-term needs, and set a dangerous precedent with regard to Federal taxation of state and local government bonds, simply make poor public policy.



FACTS ON STATE AND LOCAL GOVERNMENT PENSIONS

Retirement systems remain a small portion of state and local government budgets. State and local government pensions are not paid out of general operating revenues, but instead, a trust that public retirees and their employers contributed to while they were working. The portion of state and local government spending dedicated to retirement system contributions is about three percent.¹ While some pension trusts are fully funded (they have enough assets in the trust now for all pension obligations), following the recent market decline, plans will need to increase their contribution levels to five percent on average to return to full funding.² The unprecedented number of benefit and financing changes in public plans over the last few years will help to keep any required increases to a minimum.

Public pension plans are not in crisis. Most state and local government employee retirement systems have substantial assets to weather the economic crisis; those that are underfunded are taking steps to strengthen funding. It is important to understand that pensions are funded and paid out over decades. There is currently \$2.7 trillion already set aside in pension trusts for current and future retirees. Further, state and local government retirees do not draw down their pensions all at once. Employees must reach certain age and/or years of service before they are eligible for a pension; once retired, they must receive their pension in installments over their retirement years (as an annuity).

State and local governments are already taking steps to secure their pensions for the long-term. More state and local governments enacted significant modifications to improve the long-term sustainability of their retirement plans in 2010 than in any other year in recent history. In the past few years, nearly two-thirds of states have made changes to benefit levels, contribution rate structures, or both; many local governments have made similar fixes to their plans.³

Public employees share in the financing of their pension, which in many cases is in lieu of Social Security. The vast majority of public employees are required to contribute a portion of their wages—typically five to ten percent—to their state or local pension, and these contribution rates are being raised in many state and local governments. Employee contributions along with investment returns comprise the majority of public pension fund revenues. The average retirement benefit for public employees is \$22,600 and for many of them, including nearly half of all teachers and over two-thirds of firefighters and public safety officers, it is in lieu of Social Security. State and local salaries on which these pensions are based are lower than those for private sector employees with comparable education and work experience, even when benefits are included.^{4, 5}

Pension dollars help the economy of every jurisdiction. Public employees live in every city and county in the nation; more than 90 percent retire in the same jurisdiction where they worked. The over \$175 billion in annual benefit distributions from pension trusts are a critical source of economic stimulus to communities throughout the nation, and act as an economic stabilizer in difficult financial times. Recent studies have documented public retirement system pension distributions annually generate over \$29 billion in federal tax revenue, more than \$21 billion in annual state and local government tax revenue, and a total economic impact of more than \$358 billion.⁶

Long-term investment returns of public funds continue to exceed expectations. Since 1985 – a period that has included three economic recessions and four years of negative median public fund investment returns – actual public pension investment returns have exceeded assumptions.⁷ For the 25-year period ended 12/31/09, the median public pension investment return was 9.25%.⁸ Moreover, for the year ended 6/30/10, this return was 12.8%.⁹ These actual returns exceed the 8% average public pension investment assumption, as well as the average assumed rate of return used by the largest corporate pension plans.¹⁰

State and local government retirement systems do not require, nor are they seeking, Federal financial assistance. The great strides made in the ability of state and local government retirement systems to ensure that more than 20 million working and retired public employees have financial security in retirement have been achieved without Federal intervention. One-size-fits-all Federal regulation is neither needed nor warranted and would only inhibit recovery efforts already underway at the state and local levels.

ENDNOTES

- ¹ [NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems](#)
- ² [The Funding of State and Local Pensions](#), Center for State and Local Government Excellence
- ³ [Pensions and Retirement Plan Enactments in 2010 State Legislatures](#), National Conference of State Legislatures
- ⁴ [The Wage Penalty for State and Local Government Employees](#), Center for Economic and Policy Research
- ⁵ [Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years](#), Center for State and Local Government Excellence/National Institute on Retirement Security
- ⁶ [Pensionomics: Measuring the Economic Impact of State and Local Pension Plans](#), National Institute on Retirement Security
- ⁷ [Investment Return Assumption for Public Funds: The Historical Record](#), Callan Investments Institute Research
- ⁸ [NASRA Issue Brief: Public Pension Plan Investment Return Assumptions](#)
- ⁹ [The Public Fund Survey](#)
- ¹⁰ [Milliman 2010 Pension Funding Study](#)

OTHER RESOURCES:

[The Impact of Public Pensions on State and Local Budgets](#), Center for Retirement Research at Boston College

[Faulty Analysis is Unhelpful to State and Local Pension Sustainability Efforts](#), National Association of State Retirement Administrators

[Frequently Asked Questions About Pensions](#), National Institute for Retirement Security

[Research Brief on America's Cities](#), National League of Cities

NATIONAL CONFERENCE OF STATE LEGISLATURES ([WWW.NCSL.ORG](http://www.ncsl.org))

NATIONAL ASSOCIATION OF COUNTIES ([WWW.NACO.ORG](http://www.naco.org))

UNITED STATES CONFERENCE OF MAYORS ([WWW.USCM.ORG](http://www.uscm.org))

NATIONAL LEAGUE OF CITIES ([WWW.NLC.ORG](http://www.nlc.org))

INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION ([WWW.ICMA.ORG](http://www.icma.org))

NATIONAL ASSOCIATION OF STATE AUDITORS COMPTROLLERS & TREASURERS

([WWW.NASACT.ORG](http://www.nasact.org))

GOVERNMENT FINANCE OFFICERS ASSOCIATION ([WWW.GFOA.ORG](http://www.gfoa.org))

INTERNATIONAL PERSONNEL MANAGEMENT ASSOCIATION FOR HUMAN RESOURCES

([WWW.IPMA-HR.ORG](http://www.ipma-hr.org))

NATIONAL COUNCIL ON TEACHER RETIREMENT ([WWW.NCTR.ORG](http://www.nctr.org))

NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS ([WWW.NASRA.ORG](http://www.nasra.org))